

Message Text

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ACTION EA-10

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FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 9899

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E.O. 11652: N/A

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SUBJECT: INFLATION HITS NEARLY 15 PER CENT

1. THE CONSUMER PRICE INDEX (CPI) FIGURES JUST RELEASED SHOW CONSUMER PRICES FOR THE YEAR ENDING JUNE 1975 TO HAVE RISEN 14.9 PER CENT. PRICES FOR THE 2ND QUARTER OF 1975 INCREASED 4 PER CENT OVER THE 1ST QUARTER.

2. EACH QUARTER FOR THE PAST YEAR THE RATE OF THE CPI INCREASE HAS ACCELERATED: SEPTEMBER 1974 QUARTER, 11.5 PER CENT; DECEMBER 1974 QUARTER, 12.6 PER CENT; MARCH 1975 QUARTER, 13.2 PER CENT.

3. HIGHER IMPORT PRICES ARE BLAMED FOR MOST OF THE CPI INCREASE. GNZ STATISTICIAN FIGURES RELEASED JULY 11 REVEALED THAT IMPORT PRICES FOR THE FIRST QUARTER OF 1975 WERE 44 PER CENT ABOVE THE SAME QUARTER OF 1974. (EXPORT PRICES FELL 10.6 PER CENT MAKING THE FALL IN TERMS OF TRADE, 37.5 PER CENT, WORST SINCE WW II AND NEARLY MATCHING THE EARLY 1930'S DEPRESSION ERA). THE MINISTER OF FINANCE ESTIMATES THE HIGHER IMPORT COSTS ACCOUNTED FOR 9 PER CENT OF THE CPI INCREASE. OTHERS PUT IT AS HIGH AS 11 PERCENT.

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4. ACCORDING TO CALCULATIONS OF OPPOSITION SPOKESMAN ON TRADE AND INDUSTRY, MR. ADAMS-SCHNEIDER, INFLATION HAS REACHED 33 PER CENT IN THE 2 1/2 YEARS OF THE PRESENT GOVERNMENT'S TERM OF OFFICE. HE CRITICIZED THE GOVERNMENT FOR HAVING NO COMPREHENSIVE POLICY TO DEAL WITH INFLATION.

5. NOTABLE AMONG SECTORS SHOWING GREATEST INCREASE WERE HOUSING WHICH CONTRIBUTED MOST TO THE CPI INCREASE - 27.4 PER CENT INCREASE, FOOD - 17.1 PER CENT, AND TRANSPORT 21 PER CENT.

6. COMMENT: THOUGH IT IS TRUE THAT RISING PRICES FOR IMPORTS HAVE HAD A SIGNIFICANT IMPACT ON THE CPI (IN SPITE OF EFFORTS TO SCALE BACK IMPORTS), FULL EMPLOYMENT HAS HAD A HIGHER PRIORITY IN GNZ POLICY THAN HOLDING BACK INFLATION. AND FULL EMPLOYMENT HAS CONTRIBUTED ITS OWN SHARE TO PRESSURES FORCING UP PRICES THROUGH INCREASED EARNINGS OF NEW ZEALAND WORKERS (UP AN AVERAGE OF 18.9 PERCENT IN THE YEAR TO APRIL 1). WITH NATIONAL ELECTIONS SCHEDULED FOR NOVEMBER, 1975 THE LABOUR GOVERNMENT COULD WELL COME TO WISH IT HAD MAINTAINED A BETTER ANTI-INFLATION POLICY, EVEN IF AT THE COST OF SOMETHING LESS THAN FULL EMPLOYMENT.
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